

## Message Text

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ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 TRSE-00 OMB-01 EB-04 INR-05  
NSC-05 CIAE-00 NSAE-00 EA-06 SP-02 PA-01 H-01  
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R 221825Z MAR 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 7007  
INFO AMEMBASSY PARIS  
AMEMBASSY LONDON  
AMEMBASSY TOKYO  
AMEMBASSY ROME  
AMEMBASSY BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 05310

LIMDIS

DEPARTMENT PASS TREASURY FOR SECRETARY BLUMENTHAL

USOECN AND USEEC ALSO FOR EMBASSIES

E.O. 11652: GDS  
TAGS: EFIN, GW  
SUBJECT: FINANCE MINISTER DISCUSSES EXCHANGE MARKET  
ARRANGEMENTS AND ECONOMIC SITUATION

1. SUMMARY -- FINANCE MINISTER MATTHOEFER INDICATED  
TO ME HIS SATISFACTION WITH THE WAY US/FRG EXCHANGE  
MARKET ARRANGEMENTS ARE WORKING. HE APPEARED TO BE NO  
MORE THAN MILDLY OPTIMISTIC ABOUT FRG ECONOMIC OUTLOOK.  
END SUMMARY.

2. I CALLED MARCH 21 ON NEWLY APPOINTED FINANCE MINISTER  
HANS MATTHOEFER TO DISCUSS THE GENERAL ECONOMIC SITUATION  
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AND TO GET HIS IMPRESSIONS ON THE FUNCTIONING OF  
EXCHANGE MARKET ARRANGEMENTS ANNOUNCED ON MARCH 13.  
ALSO PRESENT WERE STATE SECRETARY MANFRED LAHNSTEIN AND  
EMBASSY ECON OFFICER. ALTHOUGH MATTHOEFER ASSURED ME  
THAT HE WOULD HAVE PREFERRED TO REMAIN IN HIS OLD JOB  
AS RESEARCH AND TECHNOLOGY MINISTER, HIS JOVIAL MOOD  
AND OBSERVATIONS LIBERALLY SPRINKLED WITH REPARTEE

SUGGEST THAT HE IS FITTING VERY COMFORTABLY INTO HIS NEW ROLE. I CONVEYED THE BEST WISHES OF SECRETARY BLUMENTHAL AND UNDERSECRETARY SOLOMON TO MATTHOEFER AND LAHNSTEIN AND SAID THE SECRETARY WAS LOOKING FORWARD TO SEEING THE MINISTER IN WASHINGTON.

3. BOTH MATTHOEFER AND LAHNSTEIN EXPRESSED SATISFACTION WITH THE WAY THE RECENTLY CONCLUDED US/FRG EXCHANGE MARKET ARRANGEMENTS WERE WORKING. THE FACT THAT IT HAD NOT BEEN NECESSARY TO INVOKE THEM INDICATED THAT THEY HAD HAD A STABILIZING EFFECT ON THE MARKET. AT THE SAME TIME BOTH INDICATED CONCERN ABOUT RECENT DISRUPTIONS IN THE GOLD MARKET. LAHNSTEIN NOTED THAT THE PRICE OF GOLD HAD FALLEN BY SIX DOLLARS IN RECENT DAYS WHICH HE ATTRIBUTED TO RUMORS ABOUT THE POSSIBLE SALE OF UP TO ONE-FOURTH OF THE US GOLD STOCK. HE REGRETTED THAT NEWS ABOUT A POSSIBLE US GOLD SALE HAD LEAKED OUT AND THOUGHT IT MIGHT BE ADVISABLE TO CARRY THROUGH WITH THE SALE OF AT LEAST A NOMINAL AMOUNT IN ORDER TO STEADY THE MARKET.

4. I MENTIONED RECENT SPECULATION ABOUT THE FORMATION OF A CURRENCY "SNAKE" AMONG MARK, YEN AND DOLLAR. LAHNSTEIN SAID THAT HE HAD THAT DAY RECEIVED AN URGENT CALL FROM THE JAPANESE WHO HAD HEARD THAT PRIME MINISTER CALLAGHAN WAS PROPOSING A BIG FIVE SNAKE ARRANGEMENT. CONFIDENTIAL

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BOTH MATTHOEFER AND LAHNSTEIN INDICATED THAT THEY DID NOT REGARD SUCH AN ARRANGEMENT AS FEASIBLE.

5. I NOTED THAT CONSIDERABLE ATTENTION AND STUDY WERE BEING GIVEN IN THE US TO MEASURES TO COUNTER INFLATION. MATTHOEFER INDICATED THAT THE FRG WOULD VERY MUCH WELCOME A DAMPENING OF US INFLATIONARY PRESSURES. HE DREW SATISFACTION FROM THE FACT THAT THE FRG INFLATION RATE CONTINUED TO DECLINE, BUT HE WAS CONCERNED ABOUT THE LATENT INFLATIONARY PRESSURES ARISING OUT OF EXCESSIVE LIQUIDITY. HE SAID THAT THE MONEY SUPPLY HAD EXPANDED AT A YEARLY RATE OF 15 PERCENT DURING THE FIRST TWO MONTHS OF THE YEAR. THIS SHOULD NOT BE A PROBLEM PROVIDED THAT MONEY GROWTH COULD BE HELD IN CHECK IN SUBSEQUENT MONTHS. I OBSERVED THAT THIS HAD HAD A FAVORABLE IMPACT ON INTEREST RATES AND SHOULD BE STIMULATIVE TO INVESTMENT. LAHNSTEIN AGREED AND THOUGHT THAT THERE WAS LATITUDE FOR A FURTHER DROP OF ABOUT ONE HALF PERCENTAGE POINTS IN LONG TERM RATES. HE CAUTIONED, HOWEVER, THAT INTEREST RATES HAD TO BE MANEUVERED GINGERLY IN GERMANY.

6. MATTHOEFER AND LAHNSTEIN SHOWED RATHER MORE CAUTION

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 05310

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ABOUT THE ECONOMIC SITUATION IN THE FRG THAN WE HAD EXPECTED IN VIEW OF GOOD FOURTH QUARTER GROWTH AND A STRONG INDUSTRIAL PERFORMANCE AT LEAST THROUGH JANUARY. THEY THOUGHT THE STATISTICS SHOWED A MIXED PERFORMANCE, AND THEY ALSO POINTED OUT, AS OTHERS HAVE DURING THE PAST WEEK, THAT THE FRG'S SYSTEM OF OBTAINING ECONOMIC INDICATORS IS NOT VERY SOPHISTICATED. WHILE SOME OBSERVERS EXPECT A REPEAT OF LAST YEAR'S PERFORMANCE (GOOD FIRST QUARTER, BAD SECOND AND THIRD QUARTERS), THE SITUATION COULD ALSO DEVELOP DIFFERENTLY. MATTHOEFER HINTED THAT FRG WAS EXPECTING TO GET A RATHER UNFAVORABLE ASSESSMENT OF THE SITUATION FROM THE ECONOMIC INSTITUTES JOINT CONSENSUS TO BE MADE IN LATE APRIL.

7. MATTHOEFER MENTIONED THAT HE WAS GREATLY RELIEVED ABOUT THE OUTCOME OF THE FRENCH ELECTIONS. TRANS-ACTIONS (EXPORTS AND IMPORTS COMBINED) WITH FRANCE  
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WERE FIVE PERCENT OF GERMANY'S GNP, HE SAID, AND THE ECONOMIC DISRUPTIONS ARISING OUT OF A VICTORY FOR THE LEFT WOULD HAVE HAD SERIOUS CONSEQUENCES FOR THE GERMAN ECONOMY.

8. OUR CONVERSATION TURNED TO CONTROLS ON CAPITAL MOVEMENTS. THE MARCH 21 EDITION OF THE HANDELSBLATT FEATURED PROMINENTLY AN INTERVIEW WITH CONGRESSMAN REUSS IN WHICH HE HAD SUGGESTED THAT THE GERMANS ADOPT SWISS-TYPE CAPITAL CONTROLS. THIS PROMPTED MATTHOEFER TO JOKE ABOUT RECEIVING "FURTHER ADVICE" ON HOW TO MANAGE THE GERMAN ECONOMY. MATTHOEFER, WHO STUDIED ECONOMICS AT THE UNIVERSITY OF WISCONSIN, REMARKED THAT REUSS WAS "HIS" CONGRESSMAN, THAT HE WOULD BE MEETING WITH REUSS AND OTHER CONGRESSMEN ON MAY 1 IN WASHINGTON, AND THAT THEY COULD DISCUSS THE MATTER ABOUT WHO SHOULD GIVE ADVICE TO WHOM. BY HIS MOCKING TREATMENT OF THE SUBJECT, MATTHOEFER INDICATED THAT HE DID NOT TAKE THE REUSS PROPOSAL SERIOUSLY.

9. I TOLD MATTHOEFER THAT WE APPRECIATED HIS RECENT MODERATE REMARKS ABOUT THE EXCHANGE MARKET SITUATION AND THAT THEY SHOULD HAVE A TEMPERING INFLUENCE. HE SAID THAT HE OF COURSE WAS SENSIBLE TO THE NERVOUSNESS OF THE MARKET AND OBSERVED IN AN ASIDE THAT (ECONOMICS MINISTER) LAMBSDORFF'S REMARK ABOUT A DOLLAR WORTH DM 1.80 HAD NOT BEEN VERY HELPFUL OR PRUDENT.

10. AT THE CONCLUSION OF OUR MEETING MATTHOEFER SAID THAT HE HAD ALWAYS FOUND IT EASIER TO SPEAK FRANKLY WITH AMERICANS THAN WITH OTHERS AND LOOKED FORWARD TO A FRANK AND COOPERATIVE RELATIONSHIP WITH US IN HIS NEW CAPACITY.

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